



**MINUTES FROM MEETING OF BANKING SUBCOMMITTEE  
OF THE CASH MANAGEMENT POLICY BOARD  
February 8<sup>th</sup>, 2017**

A Meeting of the Banking Subcommittee of the Cash Management Policy Board was held on February 8<sup>th</sup>, 2017, at 10:00 AM in the Conference Room of the Office of the State Treasurer (OST)  
Located at 820 Silver Lake Blvd., Suite 100, Dover, Delaware.

Subcommittee Members Represented or in Attendance:

Mr. Warren Engle, Chair, Banking Subcommittee (Telephonically)  
The Honorable Ken Simpler, State Treasurer  
Ms. Lynda Messick (Telephonically)  
The Honorable Richard Geisenberger, Secretary, Department of Finance (Telephonically)

Others in Attendance:

Mr. Steve McVay, Director of Investments and Cash Management, Office of the State Treasurer  
Mr. Jason Staib, Deputy Attorney General, Office of the State Treasurer (Telephonically)  
Ms. Susan Steward, Policy Advisor, Office of the State Treasurer  
Mr. Jim DiDonato, Manager of Banking Services, Office of the State Treasurer  
Ms. Jessie Ryan, Administrative Specialist, Office of the State Treasurer

**CALLED TO ORDER**

Mr. Engle called the meeting to order at 10:02 AM and introductions were made.

**APPROVAL OF THE MINUTES**

A MOTION was made by Ms. Messick and seconded by Mr. Simpler to approve the minutes from the Banking Subcommittee meeting of November 8<sup>th</sup>, 2016.

MOTION ADOPTED UNANIMOUSLY.

**NOMINATIONS OF BANKING SUBCOMMITTEE (MOTION)**

Mr. McVay informed the Subcommittee that Ms. Messick agreed to her nomination as co-chair of the Banking Subcommittee.

Mr. McVay went on to recommend Mr. Geisenberger be nominated to serve as an official member of the Banking Subcommittee.

A MOTION was made by Mr. Engle and seconded by Mr. Simpler to nominate Ms. Messick as co-chair and Mr. Geisenberger as an official member of the Banking Subcommittee.

MOTION ADOPTED UNANIMOUSLY.

## **COLLATERAL UPDATE**

### *Bank of New York Mellon Update*

Mr. McVay informed the Board that as of November 2016, Bank of New York Mellon implemented their new collateralization method which requires them analyze daily account balances, and sweep money in or out as needed. This new method was put into place to reduce risk concerning the largest intraday exposure of state funds that are uncollateralized.

Mr. McVay went on to detail the inadequate reporting issue, explaining that there was no monthly summary statement previously available. Mr. McVay explained that Bank of New York Mellon remedied this issue by linking their current platform with the previous reporting platform, Liquidity Direct. Mr. McVay noted that he would confirm the new reporting structure is adequate with the outside auditors when they are on site at the Treasurer's office in mid - February.

### *Special Counsel Update*

Mr. McVay informed the Board that we recently hired Foley and Lardner as special counsel and noted that OST was especially impressed with this group due to their expertise in the collateralization area. Mr. McVay reported that their first task will be to evaluate various collateralization methods proposed by banking vendors and the risk these methods pose on the State's funds. Mr. Simpler is hoping to have a final report to the Board by the next meeting.

Mr. Geisenberger asked if there was any litigation involved resulting in the need for outside counsel. Mr. Simpler explained no litigation was involved and this was a matter of external expertise. Mr. Simpler detailed that the Board decided it was wise to collateralize the State's cash balances and then realized that the State's funds were either being under collateralized or there was no clear method on the securitization of the State's funds in the event of a bank's demise.

Mr. Geisenberger asked if the use of outside counsel in this matter was that of an ongoing relationship. Mr. Simpler responded that both firms have been engaged under a blanket RFP, on a case by case basis the Board and Attorney General's Office will be notified of the engagement of outside counsel. Mr. Staib informed the Board that the Governor signed off on the Foley and Lardner agreement yesterday, and he will bring the agreement to Dover for Mr. Simpler's signature.

## **CONTRACT UPDATE**

### *Direct Deposit Payroll & Pension Transition*

Mr. McVay noted that the payroll and pension contract with PNC had been signed as of January 31<sup>st</sup> 2017. Mr. DiDonato explained that the state agencies affected by the transition had been notified and PNC Bank is moving forward to conduct file testing and gather information for the transition. Mr. McVay added that once the Board decided to switch negotiations to PNC, full advantage of the outside counsel (Clark Hill), was engaged resulting in a signed contract in a six week period. Mr. DiDonato explained that at this time there is no timeline for completion of the transition from Wells Fargo to PNC, although he is confident that by the end of February he will have a much clearer picture of when we can expect this project to be completed. Mr. McVay recalled a conversation with PNC Bank where they noted that file testing and information gathering could be a 6-8 week process.

### *Bank of American Merchant Services*

Mr. McVay announced the new contract with Bank of America was signed on January 31<sup>st</sup>, 2017 and noted that Mr. Staib played a large role in finalizing the contract. Mr. McVay explained that the largest hurdle going forward would be the transition from EPX to Bank of America for the State's 150 different merchants. Mr. DiDonato explained that while no merchants have transitioned at this time, he is working with them to ensure a timely conversion. He also noted that he is unable to give the Board a firm completion timeline but explained that he should have a better gauge after the first few vendors have transitioned. Mr. Simpler made the Board aware that Nora Gonzalez, Deputy Treasurer, has been assigned to help Mr. DiDonato with the merchant services transition, to ensure a timely conclusion.

#### *EPX Contract Extension*

Mr. Simpler reminded the Board that Bank of America negotiations took much longer than anticipated which has resulted in a lack of cushion for the transition. Mr. Simpler went on to communicate that with the current EPX contract ending in May of 2017, there will need to be some type of contract extension to bridge the gap during transition. Mr. Simpler proposed a wind down agreement with EPX that will be based off of Bank of America timeline, instead of negotiating another specific term contract.

A MOTION was made by Mr. Engle and seconded by Ms. Messick to begin negotiations for a wind down agreement with EPX.

MOTION ADOPTED UNANIMOUSLY.

#### *Correction of Prior Meeting Recommendation*

Mr. McVay clarified that during the prior Board meeting he requested an extension on the PNC lockbox contract that the Department of Labor utilizes. Permission had been granted to extend the contract to December of 2018, but after further examination of the contract it was determined that the final one year extension had already been exercised, resulting in the expiration date of December 2017. Mr. McVay noted that with the help of Mr. Staib, OST is reviewing the safest option(s) available to remedy this situation. Mr. Simpler emphasized to the Board that OST has been working to coordinate all of the banking contracts to expire December 31<sup>st</sup>, 2018, which will allow us to move forward at that time with one comprehensive RFP for all of the contracts.

### **REVIEW OF BANKING ARCHITECTURE**

Mr. Simpler explained to the Board the tentative timeline for the current RFP, as well as phasing in of other deliverables throughout calendar year 2018. Mr. Simpler went on to note that the task force has been formed and he hopes to have preliminary information regarding the assessment of the state's banking architecture by the August Board meeting.

### **DISCUSSION OF OUTSIDE BANK ACCOUNTS**

Mr. McVay explained to the board that phase one, which is the process where approximately 20 state organizations who currently hold 64 unacceptable outside accounts, were contacted via memo and requested to close the current accounts, and reopen said accounts under a new EIN, was implemented at the end of January. Each organization was allowed approximately six weeks to justify their current account or move forward with the closure. Mr. Geisenberger questioned if each organization had to become a legal entity to acquire EIN. Mr. DiDonato explained that the process of acquiring an EIN is not difficult, and an EIN cannot simply be changed on an existing account, but requires the account be closed and reopened.

## **CMPB ANNUAL REPORT**

Mr. McVay explained to the Board that although the fiscal year report contains much useful information, it is believed that it is not being consumed by the report's intended audience (members of the General Assembly). Mr. McVay proposed that as an alternative to this extensive report, that a summarized memorandum be produced in its place. Mr. Engle expressed his concern on how to properly consolidate the report. Mr. Simpler noted that simply adding a cover letter to NEPC's annual report should be sufficient. Mr. Engle suggested the Board move towards simplifying the content of the annual report.

## **NEW BUSINESS**

### *Financial Disclosure*

Mr. McVay explained that the piece of legislation distributed to the Board, should it be approved, would require all appointed Board members to provide financial disclosure. Ms. Messick expressed her concern of possible risk of identity theft by disclosing financial information. Mr. Engle noted that as unpaid directors it is unclear why financial information needs to be disclosed. Mr. Geisenberger noted his concern that requiring financial disclosure would inhibit the Board's capability of attracting highly qualified individuals to service on such Boards. Mr. Simpler reiterated that the issue had been brought up in the past, but wanted to bring it to the Board's attention should it gain traction. Mr. Simpler went on to emphasized that should a conversation with the General Assembly be warranted, he would engage.

### *November Cash Management Policy Board Meeting*

Mr. McVay noted that the November Cash Management Policy Board meeting is currently scheduled for the Wednesday before Thanksgiving, and proposed rescheduling that meeting to the third Wednesday in November.

## **PUBLIC COMMENTS**

No members of the public present for comment.

## **NEXT MEETING**

Mr. Engle noted the next meeting will be May 10<sup>th</sup>, 2017.

## **ADJOURNMENT**

A MOTION was made by Mr. Engle and seconded by Mr. Simpler to adjourn the meeting of the Banking Subcommittee of the Cash Management Policy Board at 11:29AM.

MOTION ADOPTED UNANIMOUSLY.

Respectfully submitted,

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Warren Engle  
Chair for the Banking Subcommittee